

Keeping Costs Down on Self-Funded Health Care Plans

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In the era of health care reform, one of the most significant issues everyone is facing is increasing costs. Yet organizations that have 50 or more employees can control expenses—while maintaining valuable health care options for employees—through proper design and administration of a self-funded plan.

Indeed, these days more employers are turning to self-funding options for their health care plans—not only to reduce their premium expenses but also to manage their cash flow and gain control over their benefit dollars. According to a 2011 survey conducted by the Kai-

ser Family Foundation, 60 percent of covered workers in US companies are in plans that are partly or completely self-funded, with that figure jumping to 96 percent for employees in US companies with 5,000 or more workers.

Cost and Risk Rest with the Employer

It's important to note that self-funded plans aren't insurance. Health care costs are paid from the employer's own pocket as the medical costs are incurred, and the employer assumes the financial risk of providing health care benefits to employees. Contrast

that with fully insured coverage, in which medical costs are paid as a fixed premium to an insurance carrier, with the carrier bearing the financial responsibility for the costs of enrollees' medical claims.

Self-funded employers typically set up a special trust fund to earmark money (corporate and employee contributions) to pay claims as they're incurred, and the employer usually purchases stop-loss insurance to protect the plan from catastrophic losses. Self-funding means assuming a bigger role in employee health management and taking over the paperwork and other services an insurance company normally provides.

For most businesses, focusing on growing revenue often supersedes managing medical claims expenses. As such, the majority of self-funded employers rely on third-party administrators or insurers to administer their benefits.

Make Sure Your Plan Is Working for You

The largest expense in any employee health care benefit plan is the claims cost. In fact, for many businesses, health care claims are

among the highest unaudited expenses in the entire organization. So how do you know whether your third-party administrator is helping you keep costs down and drive greater efficiency?

An administrative claims review offers the best opportunity to create accountability, measure performance, and establish processes for continuous quality improvement. Performing such a review of your administrator will not only fulfill your fiduciary responsibility as a plan sponsor but also help you evaluate whether your claims are being paid correctly and in accordance with the plan's intended benefit provisions.

An administrative performance review gauges the administrator's ability to pay claims accurately and efficiently by measuring the financial, payment, and procedural accuracy levels of claims against industry-wide standards. Based on our experience, administrators fail to meet industry-standard financial and payment accuracy measures 60 percent of the time.

In addition to validating current

performance metrics, results from an administrative performance review can serve as a benchmark for establishing or renegotiating performance guarantees between employers and plan administrators.

These reviews can also help you:

- Recognize claims payment errors and recover identified overpayments
- Discover process or systemic issues impacting optimal administrative performance
- Identify compliance needs in relation to contracts and procedures
- Identify exceptions to standard cost-control procedures in the processing of claims
- Confirm performance metrics that are often self-reported by the administrator

The Best Defense Is a Good Offense

For your organization to remain competitive, you must address and

manage its health care costs. With claims costs representing the largest expense component of an employee health care benefit plan, it simply doesn't make sense to assume that your claims administration process is operating exactly the way it should. Getting out in front of the issue, with regular administrative performance reviews, can help you verify that you're getting the most from your health care expenditures.

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